

LNG AND LPG

Indonesia lost its title to Qatar as the world's leading exporter of LNG in 2006, according to media reports and industry analysts. Its share of world production dropped from 18.8% in 2005 to 14% in 2006. Indonesia exported 46.1 million tons of LNG in 2006, according to government data. LNG production at Arun and Badak (Bontang) was 22.4 million metric tons (MT) in 2006, a decrease from the 2005 production level of 23.7 million MT. Currently, Indonesia has the capacity to produce a total of 31.6 million tons of LNG at the Arun plant in North Sumatra and the Badak (Bontang) plant in East Kalimantan.

LNG is still one of the country's significant foreign exchange earners. LNG exports were valued at \$10.4 billion in 2006, a 14 percent increase compared with the \$9.13 billion earned in 2005. Japan, South Korea and Taiwan were the key markets for LNG.

World LNG Trade, 2006

Exporting	billion m3	Percent
Indonesia	29.57	14%
Malaysia	28.04	13%
Algeria	24.68	12%
Qatar	31.09	15%
Trinidad & Tobago	16.25	8%
Nigeria	17.58	8%
Australia	18.03	9%
Brunei	9.81	5%
Oman	11.54	5%
UAE	7.08	3%
USA	1.72	1%
Libya	0.72	0%
Egypt	14.97	7%
Total	211.08	100%

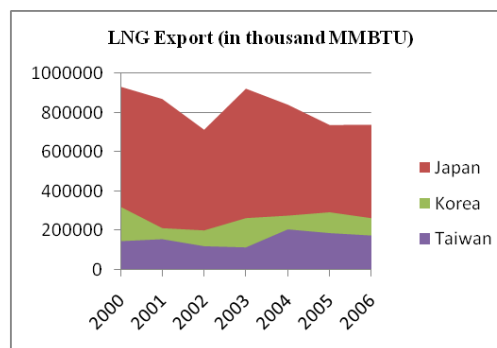
Source: BP Statistical Review

Indonesia signed its first long-term LNG contract in 1973, with the first shipment from Bontang in 1977 and the first shipment from Arun in 1978. Indonesia signed a number of additional LNG contracts between 1973 and 1995. Indonesia's LNG exports are under long-term contracts between Pertamina and its customers. Pertamina's role was reinforced in June 2004 when BP Migas appointed Pertamina as the sole sales agent for LNG sales to South Korea and Taiwan.

New LNG Sales and Contract Extensions

LNG prices are on an upward trend. In its most recent contract extension signed with Indonesia, Japanese buyers agreed to pay as much as \$15.90/mmbtu, a large increase over the \$5.18/mmbtu they paid in 2004.

Indonesia did not gain the full benefit from rising global prices, as LNG exports have declined due to falling production, a costly domestic fertilizer support policy, and the more recent reorientation of gas for domestic use. Through 2007, the government cut delivery of a total of 72 cargoes to foreign buyers, especially Japan.



As compensation, in March 2008, Indonesia agreed to a contract extension with Japanese firms to export a total of 25 million MT over a period of 10 years through 2021, according to Pertamina executives in testimony before the national parliament in March 2008.

Indonesia will export 3 million MT in the first five years and 2 million MT per year in the subsequent 5 years. Under the existing Japanese contracts that expire in 2011, Indonesia is obliged to ship 12 million MT per year. The Japanese buyers agreed to pay US\$15.90 per mmbtu if the bench mark crude price is \$100 per barrel. The price will go up or down along with the changes in the crude price.

Arun

The Arun LNG plant is operated by the PT Arun Natural Gas Liquefaction Company, of which 55 percent is owned by Pertamina, 30 percent by Mobil LNG Indonesia Inc. (an ExxonMobil affiliate) and 15 percent by Japan Indonesia LNG Company (JILCO). ExxonMobil/BP Migas is the sole supplier of natural gas to Arun, whose production capacity is now about 6.4 million MT per annum. Aceh gas production peaked in 1995 and gas deliveries to the six-train PT Arun LNG plant then started on a steady decline. ExxonMobil has extracted about 90 percent of the gas reserves in the field and committed reserves will run out entirely in 2018. The Arun facility produced 5.6 million MT in 2004, a decline from 6.6 million MT in 2003, and is expected to discontinue operations in 2014.

Due to the normal decline in the Arun fields there is insufficient gas to supply all domestic fertilizer plants. The government requested that ExxonMobil

divert part of its gas production from elsewhere in Indonesia to fertilizer firm Pupuk Iskandar Muda (PIM). The result was a cut in Arun's delivery of export cargoes, which required the GOI to turn to the spot LNG market to meet its contractual commitment to export buyers. Arun's export commitment was 75 cargoes in 2005. The government needed to acquire between eight and ten LNG cargoes from abroad in 2005 to maintain gas supply to fertilizer plants and still comply with its LNG contractual requirements.

The Arun area fields include: the original Arun field; the South Lhoksukon A and D gas fields, located 15 kilometers from Arun; the Pase A and B gas fields, located north of Arun; and the North Sumatra Offshore (NSO) gas field. The NSO field sits 100 km offshore from the Arun LNG plant.

Bontang

The eight-train (A through H) Bontang facility in Badak, East Kalimantan is the largest LNG plant in the world and has 21.6 million MT of production capacity. The facility marked its 600th LNG shipment in November 2005.

The plant is operated by PT Badak NGL Company, which is 55-percent owned by Pertamina, 20-percent by Vico (which in turn is 50-percent owned by BP), 10-percent by TotalFinaElf, and 15-percent by Japan Indonesia LNG Company (JILCO). Gas is supplied from a production sharing arrangement among Pertamina, Chevron, Vico and Total. LNG production from the Bontang facility in 2004 declined to 19.6 million MT from 20.1 million MT in 2003.

In 1995, Pertamina signed two 20-year contracts for Bontang's "H" train with the Korea Gas Company and the Chinese Petroleum Corporation (Taiwan).

Indonesia also advanced plans to build a ninth LNG train (train I) at the Bontang facility. The 3 million MT per year train is scheduled for 2007 and will increase annual production by 25 million MT.

Bontang experienced a variety of challenges that constrained its ability to provide gas for both LNG production and feedstock for national fertilizer plants in East Kalimantan. The three gas suppliers (Total, Vico and Chevron) experienced problems with underproduction or inconsistent production due to maintenance, accidents or low field performance, all of which led to gas supply shortages to the plant. Despite shortfalls, the GOI diverted gas from Bontang's producers so that Pertamina could sell subsidized gas to a national fertilizer plant group and two small Japanese-owned plants. In 2005, the GOI renegotiated Bontang contracts, cutting 42 cargoes and leaving Bontang with 335 cargoes for export.

Tangguh

BP is the major shareholder and operator of the Tangguh LNG project, which encompasses three PSCs in the Berau-Bintuni Bay region of western Papua. The Tangguh gas fields contain 14.4 TCF of proven and certified natural gas reserves. The LNG processing plant will produce seven million MT of LNG per year from two initial processing trains. Following final Indonesian government approval in March 2005, BP appointed a consortium, composed of Kellogg Brown Root (KBR), JGC Corporation, and PT Pertamina, as contractors to build the Tangguh project. BP Indonesia holds a

37.16% stake, with the balance shared by CNOOC (16.96%), Mitsubishi (16.30%), Nippon (12.23%), KG (10.00%), and LNG Japan (7.35%).

The Indonesian government and BP have secured four market commitments for 7.65 million MT of Tangguh's LNG. In July 2004, the project won a contract to supply 550,000 MT of LNG per year to South Korean steel maker POSCO for 20 years. In August 2004, the project also signed another supply contract of 800,000 MT of LNG per year to South Korea's K Power for a 20-year term starting 2006. In addition, in 2002 the project was awarded a contract to supply 2.6 million MT of LNG per year to China's Fujian province for a 25-year term beginning in 2007. It also signed a HoA in 2003 with the U.S. firm Sempra Energy to supply 3.7 million MT of LNG for a 20-year term beginning in 2007. BP says Tangguh gas will begin flowing in late 2008 with deliveries to customers commencing in early 2009.

Liquid Petroleum Gas

LPG production declined precipitously to 1.279 million MT in 2006 from 1.818 million MT in 2005, while exports declined from 1.015 million MT in 2005 to 254,700 MT in 2006. Declining exports to Japan accounted for the largest drop from 865,000 MT in 2005 to 39,900 MT in 2006.

Indonesia scrapped a plan to increase gradually the price of 12kg and 50 kg canisters of LPG to market levels in September 2008, despite plans to keep subsidized prices on 3 kg canisters. Plans to make LPG a non-subsidized alternative to kerosene are on hold.